Alberta Economic Development

Global Economic Outlook 2001-2002

July, 2001
Policy and Economic Analysis

GLOBAL ECONOMIC OUTLOOK, 2001 - 2002

Introduction

The outlook presented in this report is based on the latest forecasts from the International Monetary Fund (IMF), Export Development Corporation (EDC), Economist Intelligence Unit (EIU), Kiel Institute of World Economics (Kiel), World Bank (WB), and Dun & Bradstreet (D&B).

World Economic Growth

Because of the recent economic slowdowns in the US and Japan, most forecasters have become more negative about the outlook for world growth since the previous Outlook report of November 2000. The 2001 growth rate was lowered by about one percent. The areas with the largest reductions in forecast growth are North America and Asia.

In 2000, the world economy is estimated to have grown by between 4.6 and 4.9 percent, compared with 3.5 percent in 1999. Economic growth in 2000 was the strongest since 1984. All regions had stronger growth in 2000, with the Latin American and Eastern European regions having the largest improvement in growth.

Preliminary US data show a strong 5.0 percent US expansion in 2000, up from 4.2 percent in 1999. Most Asian and European economies also registered much higher than expected growth rates in 2000, as did oil producing nations in the Middle East and Latin America.

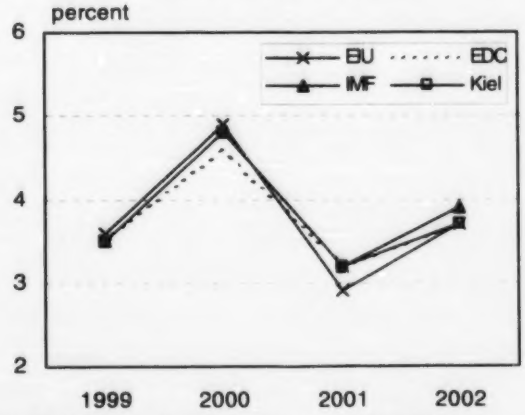
Economic growth in 2001 may turn out to be the lowest since 1993. The 2001 growth rate for the world economy is forecast at 2.9 to 3.2 percent.

Much lower growth is expected in the NAFTA region, partly because the demand for Information Technology (IT) goods and services has fallen sharply in the US. Japan is again teetering on the brink of recession. Spillover effects from the US and Japan's growth slowdowns, high crude oil prices and weak stock markets will also reduce growth in other regions, such as the European Union and East Asia. Slightly lower, but still strong, growth is forecast for the Middle East and Eastern Europe, while Africa could see higher growth.

Partly because of the worldwide slump in the demand for IT equipment, the manufacturing sector probably entered a global recession during the first quarter of 2001.

For 2002, world growth is forecast at 3.7 to 3.9 percent. Growth in the NAFTA region is expected to be at least one percent higher than in 2001, while the other regions could see slightly stronger growth.

World GDP Growth, 1999 - 2002
Estimates and Forecasts



Note: World GDP growth rates are based on exchange rates at Purchasing Power Parity.

Although a global recession seems unlikely, significant downside risks to these forecasts remain. For the most part these risks continue to be concentrated in the US. Even with the recent declines, the US equity market continues to be overpriced by historical standards, and could fall further. This could lead to a decline in the US dollar and lower than expected economic growth. The EIU recently raised the possibility of a serious growth slowdown in the US.

Other concerns include:

- The huge US trade deficit and private sector debt.
- High energy prices which could fuel inflation and reduce economic growth in countries dependent on oil imports, such as South Korea, Singapore, Bulgaria and Hungary.
- Expectations of lower corporate profits could lead to further declines in world stock markets.
- Structural imbalances in Japan could hamper its economic recovery.
- Further declines in the demand for IT equipment could cause economic growth to fall sharply in major IT producers, many of which are located in Asia.
- Spill-over effects from the economic crises in Argentina and Turkey to other developing countries.

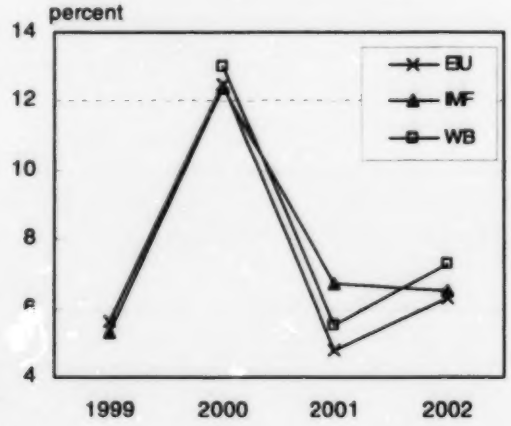
World Trade

Growth in world trade volumes peaked in 2000, at about twelve percent, one of the highest growth rates of the past fifty years. Trade growth was especially strong for the IT sector (i.e. semi-conductors and mobile phones). Although all regions recorded strong import growth, the regions with the highest growth were Asia and the former Soviet Union.

World trade growth is forecast to decline to between four and six percent in 2001, as the US and Japan sharply reduce import growth, and growth in trade of IT equipment declines sharply. Higher growth of about seven percent is forecast for 2002, mostly as a result of stronger import growth in North America. Although world trade growth rates in 2001 and 2002 will be much lower than in 2000, they are still high by historical standards.

Areas with the potential for very strong import growth over the medium term include Asia (excluding Japan), the former Soviet Union and Latin America (especially Mexico).

World Trade Growth, 1999 - 2002
Estimates and Forecasts



North America

Economic growth in North America peaked in 2000 at five percent, the highest rate of growth since 1984. However, US growth decelerated significantly in the second half of 2000, reaching 1 percent in the fourth quarter and 1.3 percent in the first quarter of 2001. Canadian growth, although lower than in 2000, has remained stronger than in the US, with 2.5 percent growth in the first quarter.

Because of the recent downward trend, growth will likely be below two percent in 2001. A resurgence in US growth could boost 2002's growth to about three percent.

United States

The US economy grew by five percent in 2000, mainly because of productivity gains and strong domestic demand. Real investment growth topped ten percent and personal consumption grew by 5.3 percent. Net exports continued to decline.

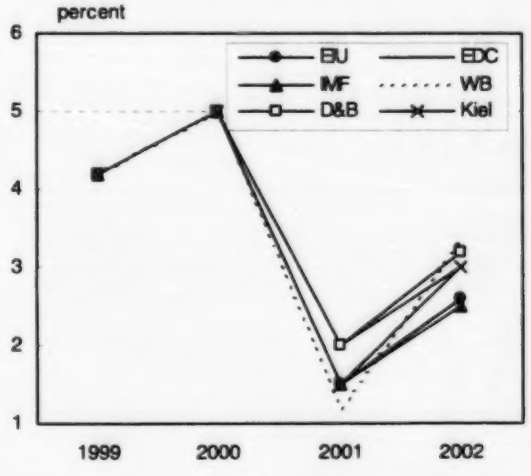
Since the third quarter of 2000, investment in equipment and software, as well as exports and imports, have declined. Investment in inventories fell sharply. Unexpectedly, industrial productivity declined for the first time since 1995 in the first quarter. Growth in consumer spending has weakened because of high interest rates (at first) and falling stock markets. Lower share prices caused the net worth of American households to drop for the first time in at least 55 years in 2000.

Economic growth is forecast to decline to between 1.2 and 2.0 percent in 2001, the lowest increase of the past ten years. There is a real danger of the US entering a recession in the second or third quarter of this year. Although consumer confidence increased in May, it is still at a much lower level than in recent years, partly because of the large decline in the value of high technology stocks. Industrial output declined in each of the first four months of 2001. Even output of IT equipment, e.g. semi-conductors, is falling.

For 2001, growth in consumer spending will decline from over five percent to between two and three percent, while investment and net exports are expected to decline. Industrial output will likely decline. The National Association of Purchasing Managers Index has declined sharply this year, indicating that the manufacturing sector will remain weak.

In 2002, economic growth is forecast to increase to almost double to 2.5 to 3.3 percent, as a result of lower interest rates, a strong fiscal position, income tax cuts and relatively low inflation. It is expected that the current account balance will improve. Growth in consumer expenditures is expected to be about the same as in 2001, but investment and net export growth will provide the economy's main boosts.

U.S. GDP Growth, 1999 - 2002
Estimates and Forecasts



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Canada

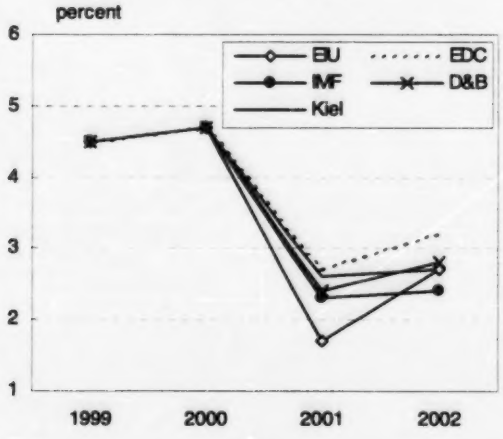
Canada's economy grew by 4.7 per cent in 2000, because of strong exports, investment and consumer demand.

Although the outlook for 2001 is less optimistic than it was previously, because of the slowdown in the US, a recession is unlikely. Consumer demand is expected to remain fairly strong this year. Federal and provincial tax cuts are providing a boost to disposable income, which is forecast to grow as strongly as in 2000. Employment has continued to grow in the first part of 2001, and the Bank of Canada has started cutting interest rates.

Export growth was stronger than expected in the first quarter and the current account surplus has continued to increase. While the manufacturing sector will see little or no growth this year, inventory accumulation has not occurred to the same degree as in the US. As a result, 2001 economic growth could come in at 2 to 2.5 percent.

Canada's GDP Growth, 1999 - 2002

Estimates and Forecasts



As the US economy picks up in 2002, Canada's GDP is forecast to rise by 2.5 to 3.3 percent. The manufacturing sector is expected to recover strongly. Export growth will accelerate, but import growth will be even stronger, and the current account surplus will therefore decline. Growth in investment and consumer spending could be higher than in 2001.

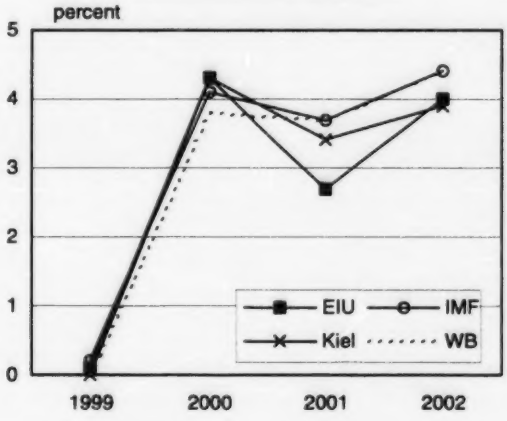
Latin America

In 2000, the Latin American economy grew by just over four percent, as a result of the strong US economy, high oil prices and a recovery in domestic demand. The economies of the region's two main engines, Brazil and Mexico, grew very strongly, as did Chile, but Argentina had another year of negative growth.

Latin America's GDP Growth

1999 - 2002

Estimates and Forecasts



Most forecasts indicate economic growth will drop by half to one percent in 2001, but bounce back to 2000 growth levels in 2002. The weaker 2001 outlook is the result of the slowdown in the US.

The US slowdown will hit Mexico especially hard, as the US is a major export market and source of investment. Other Latin American countries are far less dependent on trade with the US than with other regions, such as Europe or Asia. Latin American export growth will drop from over 20 percent in 2000 to about four percent in 2001, but exceed ten percent next year.

Mexico

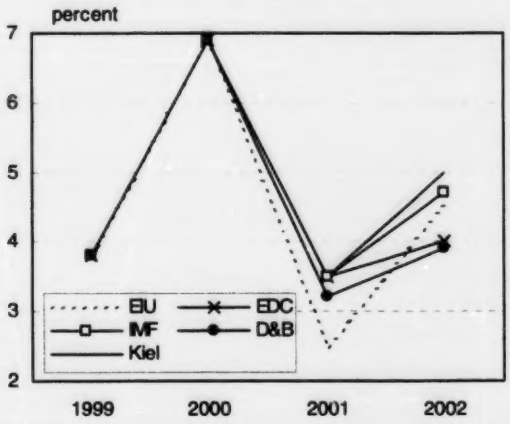
In 2000, Mexico's economy grew strongly by 6.9 percent. Domestic demand was very strong, as both consumer spending and investment increased about ten percent. Exports rose 16 percent, but the strong domestic economy resulted in even higher import growth of 21 percent.

The Mexican economy has already been impacted by the slowdown in the US, which accounts for over 90 percent of exports. First quarter GDP growth came in at 1.9 percent (annualized), the trade deficit widened, and manufacturing and construction output fell. Unemployment recently hit a two-year high. The government responded by making cuts to this year's budget, which could potentially deepen Mexico's economic problems.

The outlook for 2001 is therefore for growth of about 2.5 to 3.5 percent. More recent forecasts by investment bankers suggest even this is optimistic and that 2 percent growth is more likely.

The Mexican economy is forecast to see stronger growth of between 4 and 5 percent in 2002, as the US economy recovers and growth in business investment, consumer demand and exports increases.

Mexico's GDP Growth, 1999 - 2002
Estimates and Forecasts

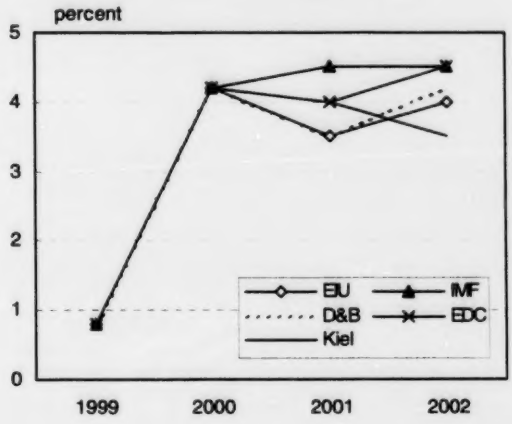


Brazil

After being stagnant during the previous two years, the Brazilian economy expanded by 4.2 percent in 2000. A large increase in exports and strong investment growth were behind Brazil's improved performance. Brazil's 1999 currency devaluation boosted export growth and is expected to continue to boost exports over the next few years.

The economy's dependency on trade with the US and Japan is very small. Europe is a far more significant trading partner. The main factor limiting Brazil's economic growth is the lack of availability of electric power. The very high foreign debt poses another risk, as any further deterioration could send Brazil's currency lower and raise interest rates.

Brazil's GDP Growth, 1999 - 2002
Estimates and Forecasts



For 2001, economic growth in Brazil is forecast to decrease slightly to 3.5 to 4.5 percent. Export growth is forecast to be lower than in 2000, but domestic demand should remain strong.

Slightly higher growth of between 4 and 5 percent is forecast for 2002, as consumer demand accelerates, and export and investment growth remain strong.

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Argentina

Argentina has been in a recession since 1999. This was caused by a decline in Argentina's export competitiveness, as its currency is tied to the US dollar, its very high foreign debt, high interest rates, and a lack of progress on the fiscal front. Although some fiscal tightening occurred, this worsened the crisis by further lowering domestic demand.

Real economic output fell 0.5 percent in 2000. Domestic demand decreased, with investment dropping sharply, export growth was lack-luster, and agricultural and manufacturing output declined.

So far, there are no signs that Argentina's recovery is now underway. The US dollar has remained firm, leading to a further deterioration in Argentina's competitiveness (the Brazilian real has lost more than 15 percent against the dollar in 2001). The fiscal deficit continues to widen and consumer confidence remains low.

The only positive event has been the lowering of US interest rates. Lower growth in the US and Japan affects Argentina very little, as exports to these two countries combined accounts for only about one percent of GDP.

As a result, most forecasters are expecting Argentina's economy to expand by 1 to 2 percent in 2001. Little growth in domestic demand or in exports is expected. Economic growth is expected to increase to around three percent in 2002, partly as a result of fiscal and structural reforms and increased investment. Growth in consumer demand will strengthen only slightly.

Argentina's very high national debt is of concern to other developing countries, as any sign of a default could cause interest rates to rise in the emerging world.

The European Union

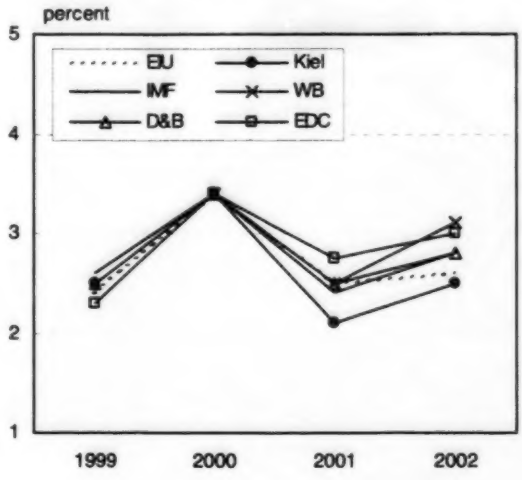
The European Union's economy expanded strongly by 3.3 percent in 2000, due to robust export and investment growth. Domestic demand remained strong.

The European Central Bank has not been able to boost the economy by lowering interest rates as in the US. The only rate reduction was a quarter percent cut in May. Further cuts will likely be limited, as inflation remains stubbornly high because of high oil and food prices and the low euro.

In both 2001 and 2002, domestic demand is forecast to grow at rates similar to that of 2000. Consumer demand and investment are expected to remain relatively strong because of tax cuts and employment growth. Although share prices, especially of high tech stocks, also fell sharply in Europe, this will have less of an impact than in the US, because stock ownership is far less common in Europe. However, much lower world economic growth will translate into lower export growth.

Euro Zone's GDP Growth, 1999 - 2002

Estimates and Forecasts



For 2001, most forecasters surveyed are expecting lower growth of about 2.1 to 2.5 percent in the EU economy, in line with the region's long-term growth potential of about 2½ percent per year. However, recent information suggests that 2001 growth could come in at the lower end of this range. Economic growth in Germany and France was weaker than expected in the first quarter, and business confidence is falling. The EU's manufacturing sector is especially hard hit by the global slowdown, and it might even be declining in Germany.

Economic growth in 2002 is forecast to be slightly higher than in 2001, at about 2.5 to 3 percent. Low world growth will continue to depress export growth, but investment growth will likely accelerate.

United Kingdom

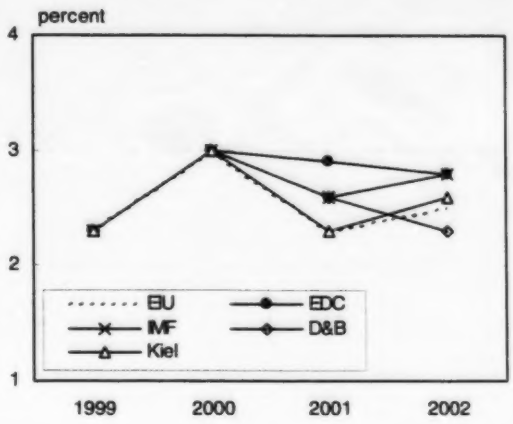
The UK's economy expanded by 3 percent in 2000, because of strong growth in household consumption and exports.

The UK's outlook is better than that of the euro zone, as the Bank of England reacted quickly to the global slowdown by cutting interest rates in February, April and May. Strong crude oil prices provide an additional boost. The only downsides are the current weakness of the manufacturing sector and the possible effects of foot-and-mouth disease on tourism.

Although public spending is expected to rise strongly in both 2001 and 2002, growth in domestic demand and exports will be lower than in 2000.

Much lower export growth and slightly weaker consumer demand will result in lower growth in 2001 of 2.3 to 2.9 percent. In 2002, the UK will see similar growth as in 2001, as weaker domestic demand will be offset by an improvement in the external sector.

U.K.'s GDP Growth, 1999 - 2002
Estimates and Forecasts



Germany

Germany experienced strong economic growth of 3 percent in 2000, mainly as a result of an increase in net exports. Growth in domestic demand was weaker than in the previous year.

The outlook for Germany has deteriorated substantially of late. GDP growth of 1.4 percent in the first quarter of 2001 was weaker than expected, and early indications are that the economy was stagnant in the second quarter. Domestic demand and exports declined, and the construction and manufacturing sectors are likely in a recession. Moreover, inflation is increasing and business confidence falling.

As a result, Germany's economic growth for 2001 is now forecast at between 1.3 and 2.1 percent. Growth in consumer demand remains weak and investment is expected to be stagnant this year. Even though Germany has more economic ties with the US than its major EU partners, net export growth could be robust, as imports are declining more than exports.

Higher growth of 2.2 to 2.6 percent is expected for 2002, as investment and private consumption growth increase,

because of employment gains and major tax reforms, and export growth slows.

The recent reform of the pension system, by allowing contributions to private pension plans, bodes well for the economy, but little progress has been achieved in labour reforms.

France

In 2000, France's economy expanded by 3.2 percent. Strong consumer spending and investment were key factors in this growth.

In 2001 growth in consumer spending continues to increase partly because of recent tax cuts. However, lower increases in public spending and investment, and inventory draw-downs, will cause the French economy to grow in a range of 2.5 to 2.8 percent. This growth slowdown was confirmed by weak first quarter GDP growth, mainly because of inventory draw-downs. Business confidence has been falling for almost a year, but inflation remains low.

Similar growth is expected in 2002. Inventories are expected to stabilize and net exports to grow, but lower growth is expected for the other components of domestic demand.

Eastern Europe

The Eastern European economy has recovered strongly in 2000, and is now expected to see fairly strong growth in both 2001 and 2002. All regions registered stronger growth than in the previous year, and are expected to see positive growth this year and next year. The US slowdown is expected to have little effect on the region. The only factor hampering growth in the region is the recession in Turkey.

Russia's economy in particular recovered strongly because of high energy prices, and a competitive exchange rate. Its recovery pulled along a number of other CIS (former Soviet Union) countries. The economies of Hungary and Poland remained strong.

The Balkan region, which was in a recession in 1999 because of the war in Kosovo, managed respectable growth in 2000. One of the Balkans' main economies, Romania, emerged from a three-year recession, but Serbia-Montenegro's economy continued to contract because of the lingering effects of the Kosovo war.

The Czech Republic also emerged out of recession, as did the Baltic region. The Baltics, i.e. Estonia, Lithuania and Latvia, had very strong growth in 2000.

GDP in the entire region increased by more than 5 percent in 2000. The CIS region's economy increased by about 7 percent, mostly as a result of Russia's strong growth. Eastern Europe excluding Russia expanded by close to 4 percent.

The outlook for Eastern Europe remains positive, and all countries, with the exception of Turkey, are forecast to see their economies expand in both 2001 and 2002, because of higher exports in the non-CIS region and strong consumer demand in the CIS.

Turkey's economy entered a deep recession early in 2001, as a result of a banking crisis, followed by a currency crisis. The government deficit will likely exceed 10 percent of GDP this year. Although net exports will grow strongly, domestic demand could fall by as much as 20 percent. GDP is expected to decline by at least 3 percent in 2001, but could grow by 4 percent in 2002. As the crisis is mostly domestic, spillover effects appear to be modest.

Forecasts for the entire region including Turkey are for growth of about 2 percent

in 2001, and of 3 to 4 percent in 2002. If Turkey is excluded, growth in the region will be close to 4 percent in both years.

The CIS region could see growth of about 4 percent in both years, as the impact of high oil prices lessens and domestic demand remains strong.

Strong investment growth could boost the Balkans' growth to about 3 percent in 2000 and in 2001. The Baltics could grow by slightly over 4 percent in 2001 and 2002, as domestic demand strengthens. Hungary is forecast to expand by more than 4 percent in both years and Romania by about 2.5 to 3 percent, because of strong investment growth. Growth of slightly over 3 percent in both years in the Czech Republic and Poland will be export driven.

Russia

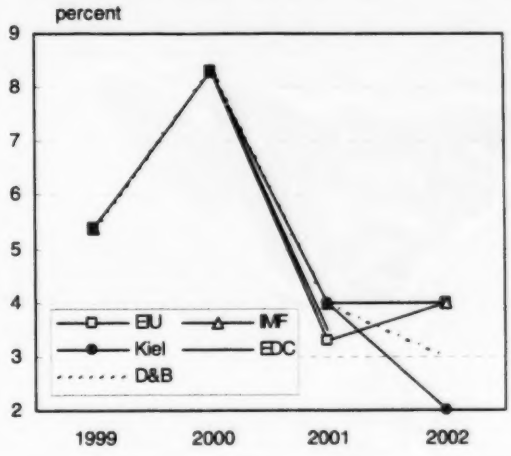
Russia's GDP increased by 8.3 percent in 2000, the highest growth in 30 years. Industrial production and service output, and private consumption and investment grew by more than 8 percent. Currency devaluation caused domestic demand to increase and imports to fall. Russia had another record current account surplus in 2001. Real wages increased sharply and unemployment declined, but inflation exceeded 20 percent.

The 2001 outlook is for economic growth to moderate to a still strong 4 percent, as net exports decline and growth in domestic demand falls below 5 percent. Real wages are expected to continue to increase sharply. Production in Russia's five core sectors grew at 4 percent during the first four months of 2001, less than half the 2001 increase. Forecast second half weakness in oil prices can also impact economic growth.

For 2002, growth estimates range from 2 to 4 percent. Domestic demand will remain strong although probably weaker than in 2001, and net exports will again be negative. The recent appreciation of the rouble will add to Russia's problems and could lead to lower exports, e.g. of manufactured goods.

Weaker growth is expected over the medium term, as many of Russia's problems remain, for instance its technological backwardness, the poor shape of its infrastructure, and its dependency on raw materials continues.

Russia's GDP Growth, 1999 - 2002
Estimates and Forecasts



Asia Pacific

In 2000, the Asia Pacific region, which includes such diverse economies as Japan, China, India, the ASEAN (Association of South-East Asian Nations) and Australia, expanded by almost 6 percent at purchasing power parity (estimates vary depending on what economies and how the economies were combined). The region's strong growth was mostly export and investment driven.

Growth by major country/trading bloc was as follows:

- The ASEAN-4 (Indonesia, Malaysia, Philippines and Thailand) grew by

about 5 percent in 2000. Malaysia's growth exceeded 8 percent, while the other three economies were growing by about 4 to 5 percent.

- The NICs (newly industrialized countries) of Hong Kong, South Korea, Taiwan and Singapore, expanded by about 8 percent in 2000, with the economies of South Korea, Hong Kong and Singapore booming with growth of about 9 to 10 percent, while Taiwan grew by 6 percent.
- China expanded by 8 percent in 2000.
- Japan grew by 1.7 percent in 2000.

The devaluations, which had taken place previously in many Asian countries, plus strong growth in the US, boosted export growth, especially of electronics, while the rebuilding of depleted stocks and increased consumer spending increased domestic demand.

The outlook for the Asia Pacific region has turned more negative recently. For 2001, most forecasters are expecting growth for the entire region to be between 1.5 and 2.5 percent lower than in 2000. Countries that are heavily dependent on the US market (Korea) and/or are major exporters of IT equipment (many Asian countries, especially the Philippines, Malaysia and Singapore) will have much lower GDP growth. For 2002, the outlook is for slightly higher growth, with the expected recovery of the US economy, and increased demand for IT equipment.

Risks to the outlook for Asia include a greater than expected slowdown in the US, and the effects of high crude oil prices. A severe growth slowdown in the US would have an adverse effect on the region's electronics exports. Asia is the region most at risk from high oil prices. It is the world's largest oil importer. The region's lack of progress in further reform of the financial sector could hold back economic growth over the long run.

ASEAN-4

The ASEAN-4 will see much lower growth of 3 to 3.5 percent in 2001, but it will recover to about 4.5 percent in 2002. The Thai economy could expand by 3 percent, or slightly less, in 2001, because of weak growth in domestic demand and exports, and by 3.5 to 4.5 percent in 2002, as both domestic and foreign demand increase. Structural problems will preclude the country from going back to pre-crisis growth levels.

Indonesia's outlook is for growth of between 2.5 and 3.5 percent in 2001, because of weaker growth in investment, consumer spending and export. Stronger domestic demand could boost GDP growth to 3.5 to 4.5 percent in 2002. Indonesia remains a high-risk trading partner, because of its large burden of non-performing loans, corruption and nepotism, and political and social unrest.

The economy of the Philippines will also grow by 2.5 to 3.5 percent in 2001, because of stagnant domestic demand and the country's dependence on exports of IT equipment. Stronger domestic demand will raise 2002 GDP growth by about ½ percent. Its huge government debt and turbulent political situation are major concerns.

Malaysia will have the strongest growth of these countries, with expected growth of 4.5 to 5 percent in 2001 and about 6 percent in 2002. For Malaysia, growth in domestic demand, especially investment, is expected to far exceed that of the foreign sector. Exports are declining in 2001 because of the IT sector slump.

Newly Industrialized Countries

The NICs are forecast to expand by 3.5 to 4 percent in 2001, and by 4.5 to 5.5 percent in 2002.

The South Korean economy expanded by 8.6 percent in 2000, because of strong external and domestic demand. Domestic demand will be very weak in 2001 and export growth will be lower than in 2000, with overall GDP growth forecast at 3 to 4.5 percent. A strong rebound in domestic demand could cause GDP growth to rise to about 5 percent in 2002. The Korean economy is more at risk from the US and Japanese slowdowns than other Asian economies, and electronics account for a large share of the nation's exports.

Singapore's economy expanded by 9.9 percent in 2000, due to very strong domestic demand. Growth is forecast to come in at 3.5 to 5 percent in 2001, as consumer demand increases less strongly and inventories are drawn down. Growth in the manufacturing sector will fall sharply because of weakness in the IT equipment industry. Stronger domestic demand in 2002 could boost GDP growth to 5.5 to 6.5 percent.

Hong Kong's economy grew by 10.5 percent in 2000, as net exports grew by more than 10 percent and domestic demand by almost as much, partly because of inventory accumulation. It may increase by 3 to 4.5 percent in 2001, as a result of weaker domestic demand and export growth. Fiscal tightening and lower inventories will cause domestic demand weakness. In 2002, GDP is forecast to be 4 to 5 percent higher, as domestic demand strengthens.

In 2000, Taiwan's GDP grew 6 percent, mainly because of very strong export and investment growth. Taiwan's export growth was driven by its high-tech sector, which is now in a downturn. Output in the manufacturing sector declined in the first quarter. Weaker investment and export growth will reduce GDP growth to 3.5 to 4.5 percent in 2001. Stronger investment could contribute to an expansion of 4.5 to 5.5 percent in 2002.

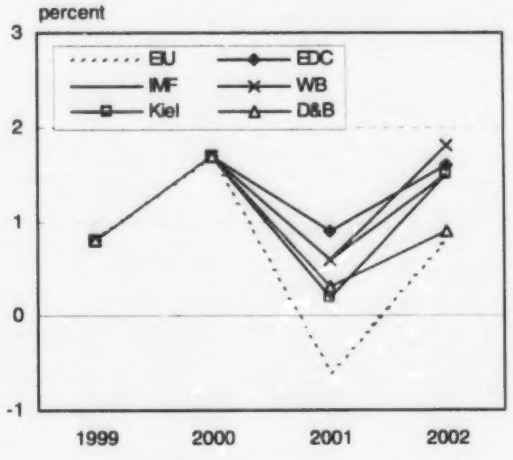
Japan

Japan's economy expanded by 1.7 percent in 2000, mainly as a result of government spending and strong export growth. Industrial production increased 4 percent in 2000. Consumer spending was again very weak (up 0.5 percent) and deflation remains a problem.

Japan is about to enter another recession, with GDP declining 0.2 percent in the first quarter. Further declines in the second and third quarters are a strong possibility. Exports declined in the first quarter and private consumption was flat. Industrial production fell sharply. The Nikkei stock market index recently hit a 16-year low, because of the weak IT sector.

Government spending has been growing strongly because of a recent stimulus program. Further spending announcements are expected, as the economy deteriorates. Japan's budget deficit will likely exceed 7 percent of GDP by 2002, and public debt already exceeds 100 percent of GDP.

Japan's GDP Growth, 1999 - 2002
Estimates and Forecasts



For 2001, most forecasters were expecting economic growth of 0.2 to 1

percent, but this is likely too optimistic. The EIU recently changed its forecast to a 0.6 percent contraction. Exports are expected to decline, as the US is a significant trading partner and the IT sector's share of exports is significant. Domestic demand will likely be stagnant and deflation will persist.

In 2002, growth should return, and 0.8 to 1.8 percent is forecast, as exports rise and domestic demand strengthens.

Japan's economy will remain sluggish in the medium term, as domestic demand remains weak because of financial and corporate sector restructuring. The high yen continues to be a problem for exporters.

China

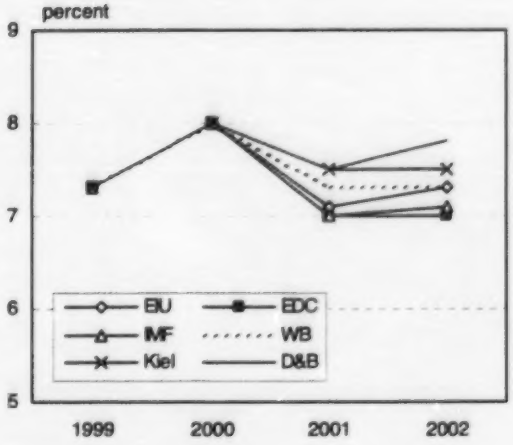
China's economy has expanded strongly throughout the nineties and now exceeds the Japanese economy on a purchasing power parity basis. Economic growth in China equaled 8 percent in 2000, led by robust growth in net exports, and investment. The recovery in private consumption continued, and industrial output rose almost 10 percent. Growth in foreign direct investment (FDI) was very strong.

The global slowdown is not expected to affect China as much as other Asian economies. Lower export growth could reduce overall growth to 7 to 7.5 percent. Domestic consumption and investment should remain strong. Results for the first four months of 2001 were good, with FDI, exports and industrial output all growing by more than 10 percent. However, import growth was even stronger than export growth, and therefore net exports were declining.

Similar or slightly higher GDP growth is forecast for 2002, as increased consumer spending should more than offset a declining trade surplus.

The two major issues facing the Chinese government are accession to the World Trade Organization, and reforms of the banking and pension systems.

China's GDP Growth, 1999 - 2002
Estimates and Forecasts



Australia

Australia's economy grew by 3.7 percent in 2000. Domestic demand and industrial production increased weakly, but growth in exports was very strong. Although GDP declined in the fourth quarter, a recession is unlikely as activity picked up in the first quarter.

In 2001, GDP growth is expected to drop to 1.7 to 2.3 percent, because of lower growth in domestic demand, with falling business and housing investment and low growth in consumer demand. Export growth will also be down, because of much lower GDP growth in Australia's three top export markets, the US, Japan and Korea. However, a drop in imports will lead to strong net export growth.

For 2002, growth of 2.4 to 3.5 percent is forecast. Recent interest rate cuts totaling 1¼ percent should lead to strong investment growth and higher consumer spending, especially on housing, more than making up for a drop in net exports.

Middle East

Because of high prices and quota increases for crude oil, economic growth in 2000 in the Middle East, including North Africa, likely exceeded 4 percent.

Most forecasters expect similar growth in 2001 and 2002. The EIU, however, expects growth to decline by about 2 percent in 2001, mainly because of production cutbacks in the Gulf region to maintain oil price stability.

2000 was an unusual year for the Middle East in that almost all of the region's economies expanded. All of the region's major oil producers had strong growth.

The only exceptions were Morocco and Lebanon. Morocco's GDP was stagnant in 2000 because of a drought and declining output in the mining and manufacturing sectors. Lebanon's economy was in its second year of a recession in 2000, because of a rising trade deficit (high oil prices), huge fiscal deficit and weak domestic demand.

Saudi Arabia's economy expanded 4.1 percent in 2000, because of high oil prices, increased oil production and fiscal discipline. High oil prices and increased public spending could translate into growth of 3 to 4.5 percent in 2001 and 2002, although the EIU forecasts minimal growth for 2001 because of production cutbacks.

Egypt's economy is expected to have grown by 3 to 4 percent in 2000. It is forecast to see similar or slightly higher growth in 2001, as domestic demand remains weak. Increased domestic demand growth should lead to slightly higher growth for 2002. Although 2000 was a good year for tourism, regional instability somewhat clouds the outlook for this sector. The medium term outlook for the country remains good as a result of recent economic reforms.

Iran's GDP increased about 5 percent in 2000, because of high oil prices and increased oil production and investment. Lower growth of about 4 percent is forecast for 2001 and 2002, as production cutbacks somewhat offset increased domestic demand.

Libya's economy has also improved because of higher oil prices. GDP growth may have exceeded 6 percent in 2000. As oil prices are expected to remain strong in historical terms, government spending becomes stronger and foreign energy investment increases, the economy is expected to expand at a healthy rate of close to 5 percent in both 2001 and 2002.

Israel's economy expanded by a robust 6 percent in 2000, as a result of very strong growth in IT exports and consumer spending. Lower growth of close to 2 percent is expected for 2001, as regional violence negatively impacts tourism, and reduced US demand leads to a decline in net exports. Higher growth of about 4 to 4.5 percent is expected for 2002, if regional stability improves and exports of IT equipment to the US and investment spending recover.

Future growth of the Middle East will no doubt receive a boost from an expected shift towards the greater use of natural gas. The region accounts for about one-quarter of global reserves. As natural gas is increasingly becoming the fuel of choice for power generation, the demand for gas will increase more rapidly than for oil. In Saudi Arabia alone, about US$25 billion of capital investments in the gas sector have been announced.

Africa

In sub-Saharan Africa, 2000 GDP growth was about 2.5 to 3 percent, partly because South Africa's performance was better than anticipated. Oil exporting countries, such as Angola, Nigeria and Congo, saw their aggregate GDP growth double to 3.6 percent, but countries with political unrest or civil strife, such as Zimbabwe and Ethiopia, had declines in GDP.

Stronger growth of 3 to 4 percent is forecast for 2001 and of 3.5 to 5 percent for 2002, as all four sub-regions are expected to see higher growth. Foreign investment in oil producing countries is expected to rise sharply. Prices for major export commodities such as coffee, cocoa and tea remain severely depressed. If the global slowdown is more severe than expected and leads to further declines in commodity prices, this region's economic growth will be at risk.

A long-term concern for the region is the HIV/AIDS epidemic. Between 20 and 36 percent of the adult population in southern Africa is now infected with the virus. One study estimates that South Africa's GDP growth could be reduced by up to 2.6 percent per year as a result of the epidemic.

The CFA region, consisting of former French colonies, such as Cameroon, Congo, Ivory Coast and Senegal, with a common currency, had growth of about 2.5 percent in 2000, as the Ivory Coast and Zaire were in a recession. The region's economy is forecast to grow by 3 percent in 2001 and by more than 4 percent in 2002. Much of the increased growth is the result of the Ivory Coast emerging from its recession and the Highly Indebted Poor Countries initiative, which provides debt relief.

Although the outlook for Central and West Africa has improved from 2000's stagnation, it remains low in 2001 at 2.5 percent, because of low beverage prices, and regional conflicts and civil wars. Higher growth of around 4 percent is forecast for 2002.

The outlook for the southern region has also improved. South Africa had growth of more than 3 percent in 2000, because of strong investment and export growth. It is forecast to see slightly higher growth in 2001 and 2002, as a result of further increases in investment and public spending. Zimbabwe is expected to remain in a deep recession in 2001 and 2002, as a result of political and economic crises.

African countries that are forecast to do well include Uganda, Tanzania, Ghana, Mozambique, Sudan, Senegal, Ethiopia, Mauritius, Botswana and Cameroon.

Appendix

Economic Growth Forecasts by Agency, Region and Country (Gross Domestic Product Growth Rates in Percent)

	1999	2000	2001	2002
World				
Economist Intelligence Unit	3.6	4.9	2.9	3.7
Export Development Council	3.5	4.6	3.2	3.7
International Monetary Fund	3.5	4.8	3.2	3.9
World Bank		4.0	2.2	3.3
Kiel Institute of World Economics	3.5	4.8	3.2	3.7

Note: All world GDP growth rates are based on exchange rates at Purchasing Power Parity, except for the World Bank forecasts, which are based on actual exchange rates.

World Trade Volumes				
Economist Intelligence Unit	5.6	12.5	4.8	6.3
International Monetary Fund	5.3	12.4	6.7	6.5
World Bank		13.0	5.5	7.3
North America (US and Canada)				
Economist Intelligence Unit	4.3	5.0	1.7	2.6
United States				
Economist Intelligence Unit	4.2	5.0	1.5	2.6
Export Development Council	4.2	5.0	2.0	3.0
International Monetary Fund	4.2	5.0	1.5	2.5
World Bank	4.2	5.0	1.2	3.3
Kiel Institute of World Economics	4.2	5.0	1.5	3.0
Dun & Bradstreet	4.2	5.0	2.0	3.2
Canada				
Economist Intelligence Unit	4.5	4.7	1.7	2.7
Export Development Council	4.5	4.7	2.7	3.2
International Monetary Fund	4.5	4.7	2.3	2.4
Kiel Institute of World Economics	4.5	4.7	2.6	2.7
Dun & Bradstreet	4.5	4.7	2.4	2.8
Latin America (incl. Mexico)				
Economist Intelligence Unit	0.1	4.3	2.7	4.0
International Monetary Fund	0.2	4.1	3.7	4.4
Kiel Institute of World Economics	0.0	4.3	3.4	3.9
World Bank	0.0	3.8	3.7	4.4
Mexico				
Economist Intelligence Unit	3.8	6.9	2.5	4.5
Export Development Council	3.8	6.9	3.5	4.0
International Monetary Fund	3.8	6.9	3.5	4.7
Kiel Institute of World Economics	3.8	6.9	3.5	5.0
Dun & Bradstreet	3.8	6.9	3.2	3.9

	1999	2000	2001	2002
Brazil				
Economist Intelligence Unit	0.8	4.2	3.5	4.0
Export Development Council	0.8	4.2	4.0	4.5
International Monetary Fund	0.8	4.2	4.5	4.5
Kiel Institute of World Economics	0.8	4.2	4.0	3.5
Dun & Bradstreet	0.8	4.2	3.5	4.2
Argentina				
Economist Intelligence Unit	-3.4	-0.5	1.0	2.7
Export Development Council	-3.4	-0.2	1.5	3.0
International Monetary Fund	-3.4	-0.5	2.0	3.8
Kiel Institute of World Economics	-3.4	-0.5	2.0	3.0
Dun & Bradstreet	-3.4	-0.2	1.3	2.9
Europe				
Economist Intelligence Unit	2.3	3.6	2.3	2.7
Euro Region				
Economist Intelligence Unit	2.4	3.4	2.5	2.6
Export Development Council	2.3	3.4	2.75	3.0
International Monetary Fund	2.6	3.4	2.4	2.8
World Bank		3.4	2.5	3.1
Kiel Institute of World Economics	2.5	3.4	2.1	2.5
Dun & Bradstreet	2.5	3.4	2.5	2.8
United Kingdom				
Economist Intelligence Unit	2.3	3.0	2.3	2.5
Export Development Council	2.3	3.0	2.9	2.8
International Monetary Fund	2.3	3.0	2.6	2.8
Kiel Institute of World Economics	2.3	3.0	2.3	2.6
Dun & Bradstreet	2.3	3.0	2.6	2.3
Germany				
Economist Intelligence Unit	1.6	3.0	1.7	2.3
International Monetary Fund	1.6	3.0	1.9	2.6
Kiel Institute of World Economics	1.6	3.0	1.3	2.2
Dun & Bradstreet	1.6	3.0	2.0	2.3
France				
Economist Intelligence Unit	3.2	3.2	2.5	2.6
International Monetary Fund	3.2	3.2	2.6	2.6
Kiel Institute of World Economics	3.2	3.2	2.5	2.4
Dun & Bradstreet	3.2	3.2	2.8	2.6
Italy				
Economist Intelligence Unit	1.6	2.9	2.4	2.6
International Monetary Fund	1.6	2.9	2.6	2.6
Kiel Institute of World Economics	1.6	2.9	2.3	2.2
Dun & Bradstreet	1.6	2.9	2.5	2.6

	1999	2000	2001	2002
Eastern Europe				
Economist Intelligence Unit	2.6	6.1	3.5	4.0
Export Development Council*	1.0	4.4	3.7	3.1
Kiel Institute of World Economics	2.5	5.6	3.5	4.3
World Bank*	1.0	5.6	2.3	4.2
* Includes Turkey				
Eastern Europe (excl. Russia)				
Economist Intelligence Unit	2.0	3.8	3.2	3.8
International Monetary Fund	1.8	3.8	3.9	4.4
Kiel Institute of World Economics	1.9	3.7	3.5	4.3
World Bank	2.2	3.9	3.8	4.3
Commonwealth of Independent States				
Economist Intelligence Unit	2.7	7.6	3.6	4.1
International Monetary Fund	3.1	7.1	4.1	4.1
World Bank	2.6	6.8	4.3	3.4
Russia				
Economist Intelligence Unit	5.4	8.3	3.3	4.0
Export Development Council	5.4	8.3	3.5	
International Monetary Fund	5.4	8.3	4.0	4.0
Kiel Institute of World Economics	5.4	8.3	4.0	2.0
Dun & Bradstreet	5.4	8.3	4.0	3.0
Asia Pacific				
Economist Intelligence Unit	3.1	4.0	2.2	2.9
Asia, excl. Japan				
Economist Intelligence Unit	6.1	6.8	4.5	5.2
Export Development Council*		7.2	5.6	6.2
International Monetary Fund*	6.3	7.1	5.6	6.2
* Also excluding Australia				
ASEAN-10				
Economist Intelligence Unit	3.4	6.0	3.4	4.7
ASEAN-4 (Indonesia, Malaysia, Philippines, Thailand)				
International Monetary Fund	2.8	5.0	3.4	4.7
NICs (Hong Kong, Singapore, S. Korea, Taiwan)				
International Monetary Fund	7.9	8.2	3.8	5.5
Japan				
Economist Intelligence Unit	0.8	1.7	-0.6	0.8
Export Development Council	0.8	1.7	0.9	1.6
International Monetary Fund	0.8	1.7	0.6	1.5
World Bank	0.8	1.7	0.6	1.8
Kiel Institute of World Economics	0.8	1.7	0.2	1.5
Dun & Bradstreet	0.8	1.7	0.3	0.9

	1999	2000	2001	2002
China				
Economist Intelligence Unit	7.3	8.0	7.1	7.3
Export Development Council	7.3	8.0	7.0	7.0
International Monetary Fund	7.3	8.0	7.0	7.1
World Bank	7.3	8.0	7.3	7.3
Kiel Institute of World Economics	7.3	8.0	7.5	7.5
Dun & Bradstreet	7.3	8.0	7.5	7.8
South Korea				
Economist Intelligence Unit	10.9	8.6	3.0	4.7
Export Development Council	10.9	8.6	5.0	5.0
International Monetary Fund	10.9	8.6	3.5	5.5
World Bank	10.9	8.6	4.5	5.5
Kiel Institute of World Economics	10.9	8.6	5.5	6.5
Dun & Bradstreet	10.9	8.6	4.0	5.0
Australia				
Economist Intelligence Unit	4.7	3.7	1.7	3.3
Export Development Council	4.7	3.7	1.7	3.3
International Monetary Fund	4.7	3.7	1.9	3.5
Dun & Bradstreet	4.7	3.7	2.3	2.4
Middle East (incl. North Africa)				
Economist Intelligence Unit	3.3	4.4	2.3	3.6
Export Development Council	2.7	3.9	3.8	3.3
World Bank	2.2	3.2	3.9	3.5
Middle East (incl. Egypt and Turkey, excl. N. Africa)				
International Monetary Fund	2.7	4.8	4.8	4.5
Saudi Arabia				
Economist Intelligence Unit	0.4	4.1	1.0	2.6
Export Development Council	-1.0	5.5	3.5	
International Monetary Fund	-1.0	4.1	4.8	3.0
Dun & Bradstreet	0.5	4.1	3.5	3.0
Iran				
Economist Intelligence Unit	2.5	5.0	4.0	3.0
Export Development Council	2.4	3.4	4.0	
International Monetary Fund	2.5	3.6	4.0	4.5
Dun & Bradstreet	0.2	5.2	3.0	2.7
Africa (Sub-Saharan)				
Economist Intelligence Unit	2.0	2.4	3.1	4.2
Export Development Council	3.1	2.5	2.7	2.1
World Bank	2.3	2.7	3.0	3.4

	1999	2000	2001	2002
Africa (excl. Egypt and Turkey)				
International Monetary Fund	2.3	3.0	4.2	4.4
South Africa				
Economist Intelligence Unit	1.9	3.1	3.2	3.5
Export Development Council	1.9	3.1	3.8	
International Monetary Fund	1.9	3.1	3.8	3.8
Dun & Bradstreet	1.9	3.1	3.5	3.3

Release dates of forecasts:
Economist Intelligence Unit: April - June 2001
Export Development Corporation: March - June 2001
International Monetary Fund: May 2001
World Bank: March - April 2001
Kiel Institute of World Economics: March - June 2001
Dun & Bradstreet: June 2001

Note: Wherever available, official historical growth rates were used